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MARKETING'S RESPONSIBILITY IN A PERIOD OF RECESSION

A SYMPOSIUM

In periods of economic stress it is often useful to re-examine the traditional functions and responsibilities of important areas of economic activity and, where expedient, to point out needed temporary modifications of these functions. Because the role of marketing is so vital to our way of life, the Atlanta Economic Review *presents the following opinions on marketing's responsibilities in a recession as expressed by nine respected men in the marketing field.*

Lawrence C. Lockley, Dean, School of Commerce University of Southern California:

What is the special function or duty of marketing during a period of business recession?

The question cannot be answered without reference to the usual period of high-level business activity which precedes a falling off of employment and of production. Almost always our periods of business activity are periods of inflation, during which time the marginal utility of money decreases and the marginal utility of goods increases. Without sales promotional activity, inflation — even of a mild sort —becomes a stimulus to sales. Marketing executives are, as it were, rowing a boat downstream and are astonished to find how well they row!

A period of recession is primarily one in which the marginal utility of money increases. Even if employment does not decrease numerically, overtime does decrease, and after-hours jobs disappear. Dividends become smaller. Inventories of raw materials seem more than adequate, and replacement orders are delayed. Throughout the economy, sales become more difficult to make because 1) money is less abundant; 2) consumers and business establishments have a preference for greater liquidity; and 3) there is less expectation of a quick turnover and a resultant profit.

Properly speaking, a period of prosperity is a period in which sales policy should be aimed at pushing those items which are harder to sell. It is a period when new products can best be introduced, when additional items can be added to a family of brands, and when rather minor points of product differentiation can be used to establish selective demand. Since sales are relatively easy to make, selling effort ought to have been used to even up penetration of markets, to fill out product lines, to introduce new products, and to establish any desired changes.

At the time business begins to falter, sales and advertising pressure could be changed to the stimulation of primary demand — that is, to calling attention of consumers to their unsatisfied wants. In this way, marketing effort can make some contribution toward increasing the marginal utility of goods (and services) at the moment general economic forces tend to shift attractiveness from goods to money.

Under most periods in our competitive economy, marketing effort tends to be concentrated on the stimulation of selective demand. Were it possible to bring about a fairly broad scale shift to the stimulation of primary demand, there should be a rather marked influence on the level of business activity.

However, a delayed application of this concept is not likely to influence the business cycle appreciably. At a time when the consumer has considerable freedom of choice — that is, when the forces generating a turn-down of activity are still partially psychological — rather small forces promptly applied can be decisive. But when employment has been increasing

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for a period of time, when credit is not available, when retail sales are appreciably slowed down, and when the other indications of a deep and lasting depression are evident, it is not likely that any modification of marketing policy will have a broad influence on the economy.

It must be realized that the concept just outlined does not visualize a discontinuance or even a major decrease in sales promotional activity in times of high business activity, or a disproportionately large increase in sales and advertising appropriations in times of poor business. It merely points to a more appropriate integration of sales policy with the business cycle.

At no time can the policy become rigid. There will always be a wave of new firms, new products, new uses, new services seeking access to the market. And even in times of low business activity, competition between types of goods and brands must continue. But if we can deploy a consequential proportion of marketing activity in the ways suggested, we may greatly ameliorate any business dips.

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John L. Fulmer, Research Professor of Economics, Georgia Institute of Technology:

It is axiomatic that "nothing happens until something is sold." Marketing's responsibility in a period of recession is to take the lead in restoration of the volume of products moving into consumption. Therefore, it behooves this nation's marketing organizations, marketing managers, and salesmen to exercise diligently marketing techniques to perform the marketing functions which each assumes. These functions include marketing planning and forecasting, movement of stocks to the right places at the right time, competitive pricing, and performance of the sales function so as to be of maximum service to one's customers and to their customers.

The fact that production has outrun market demand in some industries indicates either failure of communication between production managers and marketing managers or serious deficiences in market analysis of demand. In the automobile industry, for example, marketing analysts have predicted as a general rule over the last several years an expanding market for larger, more powerful, and higher priced vehicles. The decline in sales of major makes in the face of expanding sales of import models and some light domestic makes indicates unsound market analysis somewhere. It appears that motivation research may have been ignored or improperly employed.

Marketing through the selling function has the obligation to exploit to the maximum the market potentials for any product. This requires more than the "hard sell," for no sales organization worth its salt will allow salesmen to relax. They must be kept pushing toward higher sales goals. This is typical. But more is needed in the present situation. What is needed is the usual aggressive selling, reinforced by intelligent analysis of market potentials in order to achieve not only greater market penetration but also a progressive development of the market.

A wide-awake, alert sales organization in addition to employing the usual "hard-selling" techniques will meet more fully its responsibilities in the present situation by continuous analysis of product, customer, and market potentials. The objectives should be to find new customers, new outlets, and to help all customers increase volume and profit. Each product shall be under continuous examination to find how it can be of greater service to the customer and his customers; how it can be more effectively merchandized with new selling appeals to fit a recession situation.

With regard to inventory policy of business firms, marketing managers and their sales staff are not without responsibility to the individual firm and the public. In the long run, the salesman loses good will if he causes a customer to buy excess stocks, but, by the same token, it is to the advantage of business concerns to carry nearly normal inventories against the contingencies of rapid replacement of inventories when the business cycle reverses direction. Certainly, those customers with depleted inventories should be encouraged to begin replacing them. From the standpoint of the general economy maintenance of normal inventories reduces the severity of the business cycle. Marketing cannot escape this responsibility.

A final and perhaps the most important respon-

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sibility of all is that of searching for new, unfilled demands for products not yet in existence. This is market development and is a prime obligation of marketing. Because America is a land of change in which product innovation is a chief economic characteristic, it is necessary that market and economic stimulation be maintained by improvements of old products and by development of new products to fill both an existing and latent demand.

The conclusion is that if marketing meets fully its responsibility, it will keep production closely attuned to market demand. In a recession period, alert, aggressive marketing managers and their salesmen can make a great difference in the company's balance sheet; and for the country as a whole, marketing responsibilities fully accepted can be a strong factor aiding recovery.

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Stuart W. McFarland, Professor of Marketing and Chairman of the Department of Marketing, Georgia State College of Business Administration

Marketing management's traditional responsibility to society has included the efficient marketing of more than $400 billion annually of goods and services (Gross National Product). This task costs the American public more than $200 billion annually to bring the merchandise or services from the point of production to the American home. In this process alone are involved 265,000 wholesalers and agents, 1,800,000 retail establishments, and in all phases of marketing at least 22,000,000 of our labor force.

And now it becomes obvious and necessary for marketing management additionally to assist industry and government in any corrective action needed to combat a serious slump in production and employment.

Complications arise from the fact that the cost of living continues to mount slightly in the face of declining production and employment. Consumers have slackened their spending, retail sales are down, and consumers are more choosy in making purchases. Meanwhile, consumers are liquidating their outstanding credit obligations at a slightly faster rate and are hesitating about creating new debts. It is literally a time for corrective action in production, finance, and marketing.

There are several areas of responsibility in which marketing management can make contributions to an improvement in sales and, consequently, in production and employment. These are:

A. *Marketing management must improve retail salesmanship.* Studies in several areas of the country have shown that retail salespeople are about 75 per cent as effective as customers would like them to be. Motivating salespeople compensation-wise, in keeping with costs, and more adequate training in salesmanship should be part of the answer.

B. *Marketing management must devise new and better methods of mass merchandising.* Nothing significant has been done in this respect since the supermarket technique was created in 1933. Vending machines and large shopping centers are inadequate improvements in distribution techniques in the face of production's rapid strides in automation. We now find the embarrassing situation of production, with the capacity to create a flood of goods, waiting for marketing to arouse latent demand for such goods and to devise better methods of mass merchandising such goods.

C. *Trimming of prices* to stimulate industrial, institutional, and consumer traffic. Many prices, particularly fair-traded items, are too high and the consumers know it. To make matters worse, prices are continuing to edge slightly upward in the face of declining production, sales, and employment.

D. *Use of sales promotion;* let us return to the hard sell of the depression days. Order-takers must go; effective salesmanship, old-fashioned sales and bargains must return.

E. *Merchandise must be more carefully bought* to avoid drastic markdowns and losses which are usually passed on to the consumer through higher prices or by other means.

F. *Expensive services must be trimmed* and duplications, such as in delivery routes, curtailed.

G. *Distribution cost accounting must be used* to determine the marginal or unprofitable accounts and orders. Marketing management must then build these accounts into profitable volume or drop them.

H. *The increasing rate of failures in small business must be curtailed.* Wholesalers must scrutinize applicants for inventory credit with a greater amount of care. They must screen out the incompetent who enter retailing, fail, and increase the cost of marketing by their incompetence, thus increasing prices to consumers.

I. *Small retailers of staple lines like food and hardware should combine their purchasing power* through voluntary group organizations like the IGA group, to reduce costs and prices, and stimulate volume.

J. *New forms of sound credit* must be devised to stimulate buying of automobiles, homes, and other consumer goods. Consumers have several billions in liquid savings that can be tapped by alert marketers.

All this calls for more than a unilateral action by marketing management. The Federal government can, through public works, the raising of personal income tax exemptions for dependents, the building of highways and schools, the easing of credit restrictions on housing, and the direction of more defense spending to distress areas, improve business activity hand-in-hand with improvements in marketing and production. An all-important coordination and timing of these corrective activities should help materially. However, *until industrial and consumer confidence in business activity returns*, a new

plateau of higher levels of production and employment cannot be maintained. This is the challenge to all types of leadership at all levels.

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C. W. Ehlers, Associate Professor of Marketing, Georgia State College of Business Administration:

The question has been asked: "What are the responsibilities of marketing in a time of business recession?" The following contribution will deal with only marketing's responsibilities to the economy and more particularly the consumer. Marketing's responsibilities to the consumer can be found in four main areas: consumer orientation, increased distribution efficiency, costly decisions, and creative marketing.

Consumer Orientation

The first logical responsibility to consumers of those engaged in marketing is conducting a more consumer-oriented way of doing business. That is, marketing's responsibility should enter before as well as after production takes place. Such responsibility should reveal itself through product, consumer, and marketing research undertaken to fit more nearly future products to consumer demands. Research would determine consumer choices for products as well as buying habits and motives, and these should be the raw materials from which goods are produced and distributed.

Increased Distribution Efficiency

At present it costs slightly more to distribute goods than it does to produce them. There is an increased need for distribution research designed to reduce inefficient materials handling methods, excessive packing and shipping expenses, uneconomic distribution channels, unnecessary complicated product lines, faulty inventory planning and control, excessive warehousing and delivery expense, and unnecessary order handling and invoicing paper work. Distribution research along with sales research designed to analyze sales potential by product lines geographically will go a long way in distributing goods to consumers at a lower unit cost.

Costly Decisions

Marketing management has a major responsibility in the area of making policy decisions which eventually effect the final cost of goods and services to consumers. This is not only in reference to the area of pricing decisions but also marketing decisions in general. There is the cost of wrong decisions, such as decisions to produce products which are not suited to consumer demands. The price of such errors is found not only in the wasted cost of design and production of such goods but also in the loss of capacity and resources needed to correct such errors. In the long run, the cost of a wrong decision is absorbed by the consumer.

Creative Marketing

One main responsibility of marketing people is to be more creative in the area of consumer demand. Creative activity and thinking on the part of marketing personnel should evidence itself, not only in personal selling, but likewise in advertising, merchandising, packaging, display, and sales promotion. Creative selling and promotion will aid in increasing consumption of goods and services through more effective stimulation of consumer demand.

Summary

If marketing managers assume and efficiently perform their responsibilities and duties in the areas of consumer orientation, increasing distribution efficiency, marketing decisions, and creative marketing during the present period of business recession, then goods and services demanded by consumers will be produced; the final cost of goods and services to the consumer will decrease due to increased distribution efficiency and more right decisions; and finally consumer demand will be increased through more creative selling and promotion. The next result will be increased production, sales, and employment, which can shorten the present recession.

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P. D. Converse, Professor of Marketing, Emeritus, University of Illinois:

The demand for goods and labor has been declining. The first principle in increasing demand is to reduce price. Others are sales promotion, and innovations.

The other day President Eisenhower was quoted as saying that there was really nothing to worry about, that conditions would soon improve. This is substantially the same thing President Hoover said in 1930—just don't rock the boat, the rain will soon be over, this is just a shower and not a bad storm.

We had a long and severe depression in the 1890's. One of the factors that started recovery was the low prices. Carnegie sold steel cheaper than it had ever been sold before or since. Other factors were the discovery of gold in the Klondyke and the Spanish American War. The depression of 1920-22 was severe but short. Prices fell almost 50 per cent in the fall and winter of 1920-21 and we were out of the depression by the summer of 1922. Owners of goods had heavy losses on inventories. This may have been one of the causes of the generally accepted theory of stable prices during the 1920's. Prices came down so that the consumers resumed purchasing before their reserves were exhausted. Sellers restored confidence by the guarantee of prices against decline in 1921. Henry Ford's guarantee was especially important.

People expected prices to come down after World War I. They did not expect them to come down in 1929, as the existing prices were generally accepted as "normal." Prices came down very slowly.

The cost of production declined during the 1920's. The price level was stable. Profits mounted but purchasing power did not increase enough to keep the economy operating at its capacity.

The New Deal tried to increase purchasing power by raising wages. The attempt failed. The depression continued until buying started for World War II. In previous decades having serious recessions average per capita *real* income increased. This was not true in the 1930's. Estimates also indicate that income was less evenly distributed in 1939 than in 1929. Our per capita *real* household income is not yet as high as it would have been if the 1900-1930 trend had been continued. High income taxes may be responsible.

Prices and those wages which have risen unduly should be reduced. If this is done, then aggressive sales promotion (salesmanship, advertising, display of goods, prizes, etc.) can do its part. Sales promotion may increase the sales of individual sellers. If the increase in sales is at the expense of other sellers, national income and purchasing power are not increased. (The example of individual sellers may improve morale and optimism.) Sales promotion can, however, increase consumers' desires for goods and services and cause them to work harder or more intelligently to earn the money with which to buy additional goods or services. Thus sales promotion can increase national income and the demand for goods and services.

Innovations that are generally purchased by the population can be important in business upturns. In the 1900's moving pictures and automobiles were important. In the 1920's automobiles, paved roads, electric refrigerators, and radios were important. During the past decade home freezers and TV sets have been important. At the moment we do not seem to have an innovation of sufficient importance unless it be home air conditioners.

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Wendell R. Smith, Partner, Alderson & Sessions, Philadelphia, Pennsylvania:

There is no fundamental change in the *role* to be played by marketing as a result of the advent of a period of recession. Even though the total flow of goods and services through the channels of distribution may be reduced, the functions of marketing must still be performed. However, as a result of the fact that marketing institutions and the people who man them are expected to provide coordination and communication between the producing and consuming segments of the economy, greater *responsibility* does tend to devolve upon these institutions and people when the economy is faltering.

While it is true, in the classical sense, that a free enterprise economy depends upon the pricing system to determine what should be produced, how much should be produced, and when it should be produced or made available to the market, the signals made available by the pricing system must be interpreted and used as bases for decision by marketing functionaries. In the contemporary economy the signals broadcast by the pricing system are often dim (or may be completely jammed) as the result of imperfect or monopolistic competition. To the extent that this may be the case, marketing functionaries are capable of substituting direct measures of demand and supply factors through the use of properly designed and interpreted marketing research. In fact, contemporary research techniques include devices by means of which demand movements may be forecast with a relatively high degree of accuracy. It seems clear, then, that the *first* responsibility of marketing during a period of recession is to work with the greatest possible degree of precision in the performance of this coordination and communication responsibility. There is likewise an increased responsibility of general management to make full use of the radar that marketing research can provide in charting an admittedly perilous course through economic turbulence.

Second, there are many who believe psychological factors to be of major importance as determinants of changes in the economic climate. To the extent that this be true, marketing functionaries have a somewhat unique responsibility to be slow to "hit the panic button." Persons performing the marketing functions are, by definition, closer to the market—to consumers and users—than are other members of the business community. The psychological content and the attitudes reflected in their performance of the task of assisting and persuading prospective customers to buy commodities and services may well have a marked influence upon the confidence or lack of confidence evidenced by consumers. This is not to say that a flamboyant and optimistic attitude on the part of marketing people will enable us to talk our way back into prosperity. It does, however, suggest that a faltering sales approach may well have a multiplier effect when put against already existent consumer uncertainty. More precise and effective sales approaches could provide the catalyst required to reverse the trend.

To a large extent marketing's ability to behave responsibly in a period of recession is a function of its ability to behave responsibly in the preceding period of prosperity. Marketing functionaries who have acted intuitively and emotionally during a period of increasing sales may well be expected to do the same during a recession.

Today's marketing environment will certainly test the mettle of those who have espoused the notion of the marketing concept and the associated role of scientific method and rationality in market planning. Theirs is the burden of proving that rational planning, control, and evaluation of marketing operations is basic to responsible decision making regardless of the stage of the business cycle. While a period of prosperity and general economic growth often masks errors in marketing programs, recession brings such errors into bold relief and re-

quires higher standards of performance.

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Arno H. Johnson, Vice President and Senior Economist,
J. Walter Thompson Co., New York:

In the midst of the present talk of depression few seem to realize that we have accumulated a backlog of $28 billion of *consumer buying* — a growth in our standard of living which should have taken place in the last two years, but which did not take place because of purposeful measures to slow down our rate of expansion as a means of fighting inflation.

That $28 billion backlog of added consumption potential now represents an *opportunity* for as much as a *10 per cent increase in sales* of consumer goods and services in 1958-59 over the 1957 level of $280 billion. This is not a prediction or forecast, but an analysis of opportunity based on the basic soundness of our economy.

With the removal of the barriers to expansion and with aggressive positive selling action on the part of management, we should be able soon to reverse the downward momentum because the consumer and his advancing standard of living is the real key to our economy. An increase of only three-quarters of one per cent in consumer purchases, for example, can have as much effect on our Gross National Product as a $2 billion increase in defense expenditures or a $2 billion post office modernization program—and can have that effect immediately rather than with a lag of upwards to three years.

There is *magic in consumption*—a magic that can be released for the good of all of us by aggressive marketing and a broader recognition of the key importance to our whole economy of encouraging an advancing standard of living.

As our American economy stands today a relatively small increase in consumer purchases of goods and services would have the truly magical effect of making possible *a balanced Federal budget* and a *lowering of tax rates* and, at the same time, could supply the revenue for the kind of a *strong defense* we need. And both the purchasing power and the productive ability exist today for more than the 10 per cent increase needed in our standard of living in 1958-1959 to accomplish this.

How can we increase productivity per capita? Beyond improved education and know-how, better health and greater willingness to work, there are two major forces for increased productivity:

1. Supplying better tools (improved plant and equipment—scientific research—automation).
2. Supplying expanded demand and markets to keep production at efficient levels — that means increased selling effort.

Both of these point to the need for encouraging and stimulating a higher standard of living.

Consumer purchases of goods and services must increase rapidly now and over the next ten years if we are to avoid inflation by utilizing to the most efficient extent our greatly increased capacity for production of nearly all types of consumer goods. Any significant decrease of demand in our economy of mass production, automation, and mass distribution could quickly raise unit costs of products consumers buy and could break the "break-even" points which determine profits in industry.

While accepting almost without question that our production can and should grow to the neighborhood of $650 billion in ten years, many business and financial executives, as well as government officials, seem to overlook the fact that *consumption* must be vastly increased over the present peak levels to support that level of production. They fail to recognize the opportunity and the urgent need for this immediate *surge upward* in living standards of the mass of our American population.

Increased selling effort *now* will be needed to swing consumption upward again to support our productive ability; and increased selling effort now can be rewarded well — because purchasing power is at very high levels and there are strong underlying factors for expansion once confidence is restored and barriers to expansion are lowered.

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Clarence H. McGregor, Burlington Professor of Business Administration,
University of North Carolina:

From the viewpoint of society, the basic responsibility of marketing is optimum distribution of goods and services at minimum costs; from that of the individual firm, this responsibility is maximum effectiveness in the sale and servicing of the organization's products at costs that can be justified on a business basis. These responsibilities are inherent, and they do not change with fluctuations in the business cycle. The needs, concepts, and attitudes of consumers, businessmen, and governmental officials experience marked change with these fluctuations, however; and, as a consequence, decisions frequently tend to be made, particularly in recession periods, that may be inimical to the proper performance of the basic marketing responsibilities.

A recession, by definition, is a moderate decline in the business cycle, the effects of which will not be drastic, and which will be followed by renewed expansion at a comparatively early date. A recession period should be considered, therefore, as one that provides an opportunity for the re-evaluation of marketing goals and efforts, the correction of shortcomings and inefficiencies, and preparation for the future. But, logical and desirable as this course of action might be, the realities of business life make it highly improbable that many selling organizations can, or will, give it serious consideration.

The present development of forecasting science does not make it possible to predict with any acceptable degree of accuracy the onset, the depth, or the duration of a recession period. Also, in such a

period, the fear is always present that conditions will get worse rather than better and that its duration will be longer than predicted. But, even if it were possible to predict with a greater degree of confidence, the marketing organization is rare that could afford, or would be permitted, to take a "breather" in a period of slow business. The urgent need for continuous sales revenue, the desire to hold a particular market position, and the necessity for minimizing expenditures make immediate results of much greater importance than long-term considerations.

Historically, the fears generated in recession periods, as well as sheer expediency in the case of the large majority of firms, have resulted in a common pattern of all-out selling effort for volume at the outset, followed by the degeneration of sound selling practices, the decimation of sales organizations, drastic reduction in promotional efforts, and the curtailment or elimination of needed marketing research activities. Until long-range planning is more widely adopted and business forecasting becomes more dependable, marketing can be expected to have burdens placed upon it during cyclical changes that will seriously impede the satisfactory performance of its basic responsibilities.

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W. T. Tucker, Associate Professor of Marketing, Georgia State College of Business Administration:

Recessions in a developed economy are characterized by marked changes in consumer attitudes. An eagerness to buy an endless array of items becomes a resistance to all but those for which the consumer feels a relatively strong need.

Since marketing provides the push, or pull, that results in sales, much recent talk has concerned the need for increasing promotional expenditures during periods of recession. The argument is quite direct: in the past too many companies have cut promotional efforts at the first signs of falling sales in order to reduce costs. The reduction in promotional expenditures then causes a further reduction in sales. The proper policy would be to increase promotional activities as sales fall off. This would increase sales and at least mitigate other recessive forces.

Appealing as this argument is, a reasonably careful analysis shows that it is an oversimplification if it means giving the tired swimmer the advice: "swim harder."

A recession normally indicates some variance between the real world of people and the model of that world that economic policy makers use in framing their decisions. In marketing management this may mean that too large a number of people have stopped accepting as an immediate goal the one marketers place before them in the mass media. In people terms, a new automobile is not exciting enough to start $60.00-a-month payments on, or a color TV set is not worth $40.00-a-month more than the old black and white set.

To a large extent this lack of buying urge may be related to failures in effective innovation. Quite probably nothing on the market is currently being presented to a large number of people in such a way that they feel they must have it if it is financially possible. The implications are two. First, the strong possibility exists that the "widget" that would make a consumer out of a saver is simply not on the market. Second, perhaps the saver does not adequately realize the satisfaction he would get out of a product that is immediately available.

The first of these implications suggests the need for rapid innovations which will satisfy the current wants of people. Further, it tends to ask how we got off the main road of human desires in designing and planning products. It looks askance particularly at what might be called "Hollywood" merchandising.

The motion picture industry has traditionally operated with an eye to the largest possible audience for each picture rather than the greatest satisfaction of a particular audience. And it has had a strong tendency to follow subject matter cycles in both its theater and TV films. A successful western leads to more and more westerns until the audience's capacity for quick draws has seriously diminished.

So in marketing during times of exuberant spending, the manufacturer is sorely tempted to shoot at the mass market and imitate the best selling product in his industry. When this market is momentarily sated, he finds himself suddenly surrounded with a heavy inventory of highpowered road cruisers while there is a six-month waiting list for Volkswagens.

One of the major problems is that with design and production time taking years of planning and too many producers indulging in "Hollywood" merchandising, the counter-measures to a temporarily sated market cannot be put into effect rapidly.

The second implication — that the saver does not adequately realize the satisfaction he would get out of a product that is currently available — similarly suggests that promotional methods may have gone stale for many potential purchasers. If this is so, the antidote may be *different* promotional efforts rather than simply more of the same. Again, innovation is the need.

Since successful innovations are extremely difficult to develop on short notice, the suggestion here is that marketing has these roles in connection with recessions:

1. To see that sufficient variety and diversity in products and services are constantly being introduced and developed;
2. To maintain a highly flexible position that will allow rapid changes in the marketing effort placed behind particular goods or services.

[End]

THE CURRENT RECESSION AND STABILIZATION TECHNIQUES*

It has now become abundantly clear that the economy of the United States is experiencing a downswing. There are three chief points at issue in the situation, namely, (1) whether the economy is faced with a major downswing, (2) whether only a minor downturn is likely, and (3) whether over-zealous measures to combat the recession may not lay the basis for a renewal of inflation.

Substantial Downward Adjustment

The case for a major downward adjustment in 1958 includes three major considerations.

First is the absence of a new stimulating force. Since World War II, admittedly generally a period of expansion, the United States has been experiencing not one boom but a succession of booms, one piled on the other. After World War II, there was the initial boom based upon a massive accumulation of purchasing power and a severe shortage of consumer and capital goods. When this expansion had about run its course, it was followed by the Korean War boom. This, in turn, was followed by a capital investment boom. And, now that this boom has run its course, there appears to be no other new force for expansion immediately in sight.

Second is the impressive array of weaknesses in the present situation. In percentage of change or otherwise, key business indicators have already reached, or are approaching, the limits of what might be characterized as a minor downward adjustment. Personal income is in a downward trend, first noted in last September and still continuing. Huge agricultural surpluses remain to plague the nation's farmers. There is the squeeze on corporate profits, which was reflected by a sagging in the stock market, beginning in mid-1957. Retail sales, seasonally adjusted, have been declining since last August, and retail inventories are generally at record levels. Expenditures for new construction and producers' durable equipment have leveled off, and spendings for inventory have dropped to a substantial minus factor. Unemployment has risen sharply and total employment has decreased. The rate of industrial production has dropped, and many plants have either closed or are working on a curtailed output basis. The annual rate of new housing starts in 1957 was below that of any recent year. In response to financing difficulties overseas and to the clearing of the Suez situation, the excess of exports over imports has narrowed.

*This article has been written by a member of the Adjunct Faculty of the Department of Economics, Georgia State College School of Business Administration.

Third is the time-tested principle that once a downward trend develops it becomes self-reinforcing. A decline in income as unemployment increases means a decline in purchasing. A decline in purchasing means additional production layoffs, and this means further declines in income. Inflationary excesses that developed during 1956 and 1957 may well have set the stage for corresponding deflationary excesses.

And so it is that this view of the business outlook, this expectation that the current recession is more than simply another rolling readjustment, cannot be dismissed lightly. It is rooted in the paralyzing fear of major depression that always arises at the slightest downturn. It is certain to be exploited by political opportunists, who will exaggerate and exploit the evidence of downturn and apply pressure to use major public works and tax reductions characteristic of an assault upon a major downturn. It is reinforced by the factors of downturn that are present usually in the early months of each year, namely, declines in employment because of seasonal influences, the repayments of bank loans following the Christmas holiday expansion, and the deflationary effect of fiscal practices, which involve substantial excesses of Federal receipts over expenditures.

Mild Readjustment

The case for only a mild readjustment in 1958 rests upon three principal considerations.

First is the recognition that the current dip in over-all economic activity represents in part a response to restrictive monetary and fiscal policies in restraining inflation and holding the economy within the stabilization range.

In our institutional framework, the Federal Reserve System assumes primary responsibility for managing the money supply with the objective of avoiding both inflation and deflation and in contributing to the maintenance of high employment consistent with maximum economic growth. Throughout 1955, 1956, and 1957, the Federal Reserve System followed a program of moderate and even gentle monetary restraint, designed to restrain the boom to sustainable proportions.

The caution with which this restraint was applied is evidenced by the inching up of the discount rate from $1\frac{1}{2}$ per cent, in April 1954, to $3\frac{1}{2}$ per cent in August 1957. This rise in the discount rate indicated the effect rather than the cause of tight money. It reflected the fact that the demand for

credit on the part of business, individuals, and Government was generally greater than the supply of credit.

The Federal Reserve System, through devices available to it, could have increased the supply of credit and thus avoided the rise in the cost of money, but if it had done so the result would have been not the rise in the general price level we experienced of between 3 per cent and 4 per cent, but a rise of 8 per cent to 10 per cent, or even more. Indeed, it was largely because the general level of prices had broken out on the upward side of the stabilization range that monetary restraints had been applied.

The effectiveness of monetary restraints was reinforced by adjustments in Federal spending. Modifications in aircraft procurement and in spending upon certain defense installations created localized problems of unemployment and declining business.

The current recession, like that of 1949 and that of 1954, in this view arose not from any inherent and foreordained cause. One factor in the downturn was certainly the application of monetary and fiscal restraints for stabilization purposes. Current weaknesses, instead of being taken as a prelude to a major downswing, could well be taken as evidence of the effectiveness of stabilization measures.

A second important factor in the case for a mild readjustment is the existence of important offsetting forces in arresting any spiraling downturn. Offering continued high demand for construction material and equipment is the gigantic Federal highway building program. Heavy demands for materials and personal services will be made by state and local governments, which have stepped up their expenditures at a steady rate of about $3 billion a year for the past several years. Then, there is the certain expansionary factor of higher defense spending which has attained a new urgency with recently demonstrated Russian technical advances. This expansionary effect is almost certain to be reinforced by the certainty that some part of the spending will be on a deficit basis.

A third factor in the expectation of an early end to the downturn is easier money. In November 1957, the Federal Reserve System through lowering of the discount rate from 3½ per cent to 3 per cent gave notice that its program of monetary restraint was being modified. In January, margin requirements were lowered on listed stock trading. In January, also the Federal Reserve Banks lowered discount rates, from 3 per cent to 2¾ per cent, and in early March from 2¾ to 2¼ per cent. Reserve requirements of member banks on demand deposits were reduced one half of one per cent, effective February 28 and March 1, and another one half of one per cent effective March 20 and April 1.

It should be recognized that there is necessarily a time lag in the response of the economy to a change in direction of monetary and fiscal policy. It seems unrealistic, however, to say that reversal of present downward trends must await additional outpouring of Government defense spending until some time late in 1958 or early in 1959, a deferral anticipated because of the time it takes to get legislation passed and defense projects underway. This expectation would ignore the change in the psychology of both businessmen and consumers, which would be likely to switch from one of conservatism and pessimism to one of confident spending and optimism if additional spending by the Government for goods and services appeared to be assured, and if credit becomes more readily available.

In short, it would take more than the current weaknesses in the economy to warrant the expectation that a severe recession lies ahead. If Government expenditures were to be cut some $10 or $20 billion; if the price support program in agriculture were to be done away with; if monetary restraints were to be stepped up instead of relaxed; if the elaborate social security program should be sharply curtailed, with reductions made in unemployment compensation and the eligibility list for old-age and survivorship benefits narrowed; and if taxes were to be materially increased and a substantial Federal surplus created, then those who anticipate a major downturn in the economy would be precisely correct.

Such measures as these would exert a strong deflationary force. But none of these measures appears to be in sight. In fact, quite the reverse is to be anticipated, namely, that both monetary and fiscal policy will contribute actively to expansion. With existing underriding stabilizers at work, with easier money already a fact, and with Government expenditures already rising, it would seem that a reversal of the downturn would soon occur.

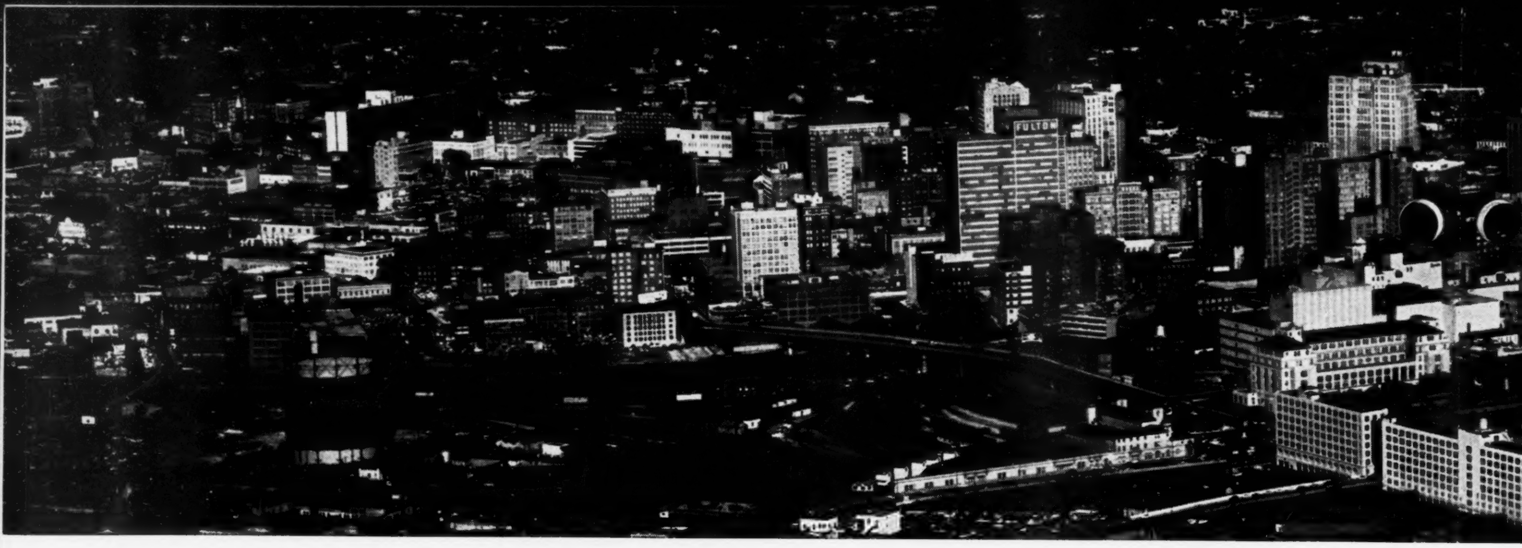
Long-term Trend

This, then, brings up a third possible expectation, the resumption of expansion and the return of the threat of inflation. Whether or not the 1958 recession goes beyond what was experienced in 1954 or in 1949, or whether the recession will be of the type that will leave the over-all record of 1958 very nearly equaling the record of 1957, the long-term problem still appears to be that of restraining undesirable inflation rather than that of dealing with deflation.

There are four chief reasons for this expectation.

1. High Government spending appears to be assured for a long time to come. Increasing Government expenditures represent an expansionary force. Domestic needs in the way of schools, highways, hospitals, and public works appear to be insatiable. And when such spending is reinforced by extraordinary spending for defense, Government competition for men and materials will mean demands that will continue to press upon the ability to produce. Congress appears to be aroused to the need to spend

(Continued on page 17)



FEBRUARY 1958
ATLANTA AREA ECONOMIC INDICATORS

ITEM	February 1958	January 1958	% Change	February 1957	% Change	% Change Two Months '58 over Two Months '57
EMPLOYMENT						
Job Insurance (Unemployment) Payments	$666,996	$684,409	− 2.5	$343,758	+94.0	+82.6
Job Insurance Claimants†	11,514†	10,728†	+ 7.3	6,035†	+90.8	+90.1*
Total Non-Ag. Employment	337,500	341,550r	− 1.2	340,850r	− 1.0	− 0.5*
Manufacturing Employment	80,200	82,050	− 2.3	89,500r	−10.4	− 9.7*
Average Weekly Earnings, Factory Workers	$73.53	$74.88r	− 1.8	$73.47r	+ 0.1	+ 0.2*
Average Weekly Hours, Factory Workers	38.7	39.0r	− 0.8	39.5r	− 2.0	− 2.4*
Number Help Wanted Ads	5,907	7,335	−19.5	8,494	−30.5	−29.4
CONSTRUCTION						
Number of Building Permits§	605	668	− 9.4	703	−13.9	−11.2
Value Building Permits§	$7,764,346	$8,422,027	− 7.8	$4,780,468	+62.4	+75.5
Employees	17,150	17,850r	− 3.9	17,050r	+ 0.6	+ 2.9*
FINANCIAL▲						
Bank Debits (Millions)	$1,484.7	$1,727.0	−14.0	$1,457.4	+ 1.9	+ 5.4
Bank Deposits (Millions) (Last Wednesday)	$1,103.3	$1,094.0	+ 0.9	$1,063.2	+ 3.8	+ 3.8**
POSTAL§						
Postal Receipts	$1,424,452	$1,413,848	+ 0.8	$1,364,680	+ 4.4	+20.4
Poundage 2nd Class Mail	1,234,600	1,228,753	+ 0.5	1,247,923	− 1.1	+25.7
OTHER						
Department Store Sales Index (Adjusted 1947-49=100)	147	151r	− 2.6	157r	− 6.4	− 3.0¶
Retail Food Price Index (1947-49=100)	116.7	116.2	+ 0.4	112.1	+ 4.1	+ 4.1**
Number Telephones in Service	307,889	308,469	− 0.2	292,631	+ 5.2	+ 5.2**

r—Revised *Average month **End of period ¶—Based on retail dollar amounts
§City of Atlanta only. N. A.—Not Available ▲Data from members of the Federal Reserve System only.

†New series. Covers unemployed Federal employees and unemployed veterans in addition to those covered by Georgia law. Claimants include both the unemployed and those with job attachments but working short hours.

Sources: All data on employment, unemployment, hours, and earnings: Employment Security Agency, Georgia Department of Labor; Number Help Wanted Ads: Atlanta Newspapers, Inc.; Building permits data: Office of the Building Inspector, Atlanta, Georgia; Financial data: Board of Governors, Federal Reserve System; Postal data: Atlanta Post Office; Retail Food Price Index: U. S. Department of Labor; Department Store Sales Index: Federal Reserve Bank of Atlanta and Board of Governors, Federal Reserve System; Telephones in Service: Southern Bell Telephone and Telegraph Company.

CONSUMER CONFIDENCE

For some reason consumer confidence has slipped since 1956 and made itself felt in the revision of plans to buy cars and homes, and this has strongly affected two industries, the vitality of which is of paramount importance to the nation and the city of Atlanta. The fact that the consumer's income has actually risen faster than the cost of living and that he was thus, in the aggregate, better off in 1957 than he was a year earlier leads to the conclusion that *he has been persuaded to reduce his spending by reports of impending hard times and less real income, which his actions are now helping to make a reality.*

In this period of increasing unemployment and slackening business activity, many responsible people have risen to decry the "pessimistic talk about recession," advancing the theory that we can, in effect, talk ourselves into a recession or worse, when if left alone, the peoples' confidence in the economy would outride such things as inventory adjustments, cutbacks in orders for capital equipment, etc., without the necessity of government intervention. Their thought is that talk of hard times scares the consumer, makes him hesitant to spend for things he could get along without, and encourages savings at a time when the economy needs increased spending to revive. As large a number of equally responsible people answer that this is not the case, rather that the people should be made acutely aware of the situation so that they might pressure government into positive action to inject the needed buoyance into the economy. To further cloud the issue, cries of "politics" are hurled at holders of either view.

The question posed by these arguments might be said to be "To what degree does lack of consumer confidence help bring about a recession in times of serious weakness in important segments of the economy?" The question is, to a large degree, an academic one, impossible of a definitive answer; but, logically, it is obvious that consumer spending, especially for luxury or deferrable items, will be curtailed in times when the source of income of the family unit seems in jeopardy or when it seems probable that income might be less in a given future period. Also, the belief that prices of consumer goods inevitably fall during a period of recession is somewhat common and could lead to a delay in spending among units not threatened with loss of income. Accepting just this much as truth, an examination of consumer confidence in the economy, especially the Atlanta economy during the past few months, seems in order.

Decline in Confidence Apparent

The basis of this appraisal will be data gathered during the 1957 Survey of Consumer Attitudes and Spending Plans, conducted in October 1957. There had been a considerable amount of talk about a recession even earlier, and much had been said about the rising cost of living and its effect on the consumer's pocketbook. As was stated in a review of the findings of the survey, which appeared in the February issue of this *Review*, the Atlanta consumer experienced a marked decline in confidence during the twelve months following the 1956 Survey, and in the estimate formed in his own mind the high cost of living was one of the most outstanding reasons for this shift in attitude from the previous survey.

Decline in Optimism Began in 1957

In 1956 the Atlanta economy was buoyant. Employment was high, incomes were high, and people were spending and planning to spend their money. There was hardly any hint of lack of confidence. Atlantans seemed even more optimistic in 1956 than

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The problem of municipal financing, aggravated by the movement to the suburbs, is increasingly demanding the attention of city planners. A burning question which requires immediate attention is . . .

SHOULD THE PROPERTY TAX REMAIN AS THE LEADING SOURCE OF MUNICIPAL REVENUE?

by

S. D. Lovell*

Dr. Lovell's article on "Nonproperty Tax Revenue Sources For Cities" appeared in the October 1957 *issue of* The Atlanta Economic Review.

In this era of increasing demands on local governments for additional and greater services and this time of increasing prices, which apply to government as well as to individuals, the traditional revenue sources are strained to the utmost to fulfill the demands upon them. Cities, even to a greater degree than the more rural counties, are feeling the impact of modern requirements. In the municipality today there are greater needs for schools, recreation, welfare, transportation, water, sanitation, and other functions and services than ever before. The property tax, as the principal and almost sole source of tax revenue for many municipalities, is subjected to its greatest test. Is it adequate for this function? Is it equal to the requirements of the occasion?

Declining Dependence on the Property Tax *In the Nation*

Perhaps the question already has been answered, at least in part, by the trend in recent decades. Starting as a tax on land in the early history of this country, the rates were applied in the early nineteenth century to one category after another of personal property, and the tax evolved into a *general property tax*. By the time of the War Between the States it was established as the basic state and local tax. Continuing as practically the only tax of importance in existence among local governments in most states, the high point for the tax came in the beginning of the "Great Depression" in 1930. With the decrease in property values during the early years of the depression, the tax revenue declined until in 1935 it was only 80 per cent of the 1930 level.[1] Because of rising property values, the property tax levies have increased slowly since the middle of the depression, but during the same period the property tax revenue as a portion of total revenue declined. In 1902 the "ad valorem" constituted 72.7 per cent of the total local revenue. Rising to the middle and upper 70's in percentage in the 1920's and 1930's, the portion of revenue attributable to the property tax began to lessen in the early 1940's and continued its relative decline to form "only" 58 per cent of the total revenue in 1955.[2]

A similar trend of declining importance is evident when revenue of cities only is considered. In 1942 the tax supplied 63.1 per cent of the total revenue of the cities of the United States, compared with 48.7 per cent in 1953 and 38 per cent in 1955.[3] The decline in real income has been in the face of a rise in assessed valuation of property, with the average assessed value of property in cities increasing 40 per cent — from $255,000,000 in 1945 to $315,000,-

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*Dr. Lovell's article was written under the Research Grant Program of the School of Business Administration of Georgia State College of Business Administration, where he was Associate Professor of Public Administration until September 1957. Dr. Lovell is presently on the faculty of Southern Illinois University.

1. Mabel Newcomer, "The Decline of the Property Tax," **National Tax Journal**, March 1953.
2. **Historical Statistics on State and Local Government Services, 1902-1953**, Bureau of the Census, United States Department of Commerce, p. 21. See also **Facts and Figures on Government Finance, 1956-1957**, New York, The Tax Foundation, 1956, p.174.
3. Lynn F. Anderson, "The Search for Money," **National Municipal Review**, February 1955; and **Facts and Figures, op.cit.**, p.178.

000 in 1954. Unadjusted rates also rose, increasing in the same period from $38.95 per $1,000 of assessed value to $50.93, an increase of 30.7 per cent. The adjusted rate varied, rising 9.2 per cent in the 1945-1949 period, but started to drop in 1950 and further declined until in 1954 the rate stood at $20.88 per $1,000, compared to $29.75 in 1949, or 30.5 per cent below the 1945 level.[4] Between 1950 and 1955, in the 481 cities of this country with a population of 25,000 or more (1950 census), the property tax declined as a percentage of total general revenue from 50.6 per cent to 47.8 per cent.[5]

Statistics and comparisons such as the above show that in recent years the property tax as a portion of the wealth and income of the residents of the areas concerned has declined. In 1930 the burden of the property tax amounted to 7.1 per cent of the income in the United States. Due in large part to the surge of the Federal income tax to finance the war, the share of the burden of the property tax dropped to 2.9 per cent at the end of the war, rising slowly to 3.3 per cent in 1950. Each geographical section of the United States witnessed the decline and subsequent gradual increase, but the property tax in the Southeast in 1950 produced the smallest burden, only 2.2 per cent of the income of that area.[6]

While recent years have witnessed a decline of property tax revenue as a part of total revenue of city and other local governments and as a percentage of income of the constituents, the tax itself is by no means dead. In dollars the property tax revenue is increasing. Bureau of the Census statistics show that the property tax revenue for cities of 25,000 or over has increased steadily from $2,289,000,000 in 1950 to $3,047,000,000 in 1955.[7] In a study of twenty selected cities in the same general population class as Atlanta, it was shown that per capita property tax revenues are on the upswing, having increased noticeably in a majority of the cities between 1954 and 1955.[8] As a generality, the property tax per capita is highest in the largest cities. In 1955 the average tax in the five cities of over 1,000,000 population in the United States was $62.07 per capita, while in cities of 25,000 to 50,000 population the dollar burden on each individual averaged only $37.79. Following are the population classes of cities in the United States and the average per capita property tax in each class:[9]

1,000,000 or more	$62.07
500,000—1,000,000	57.18
250,000—500,000	39.32
100,000—250,000	43.01
50,000—100,000	42.66
25,000—50,000	37.79

The only exception to the rule of declining tax burden with declining population is in the 100,000-250,000 group. The explanation for the rising costs with rising population lies in the demand for more services and the press by the citizens for a higher level of performance. Greater costs are entailed in the greater traffic, sanitation, and other problems. Greater services cost more money.[10]

In Georgia

Computations based on Bureau of Census reports show that Georgia cities of more than 25,000 population vary considerably in the percentage that the property tax is of the total general revenue and of all local tax revenue. Table 1 lists the cities by size, showing the relative importance of the property tax:

Table 1
RELATIVE IMPORTANCE OF PROPERTY TAX GEORGIA CITIES (OVER 25,000 POPULATION)

	Per Cent of Total Taxes	Per Cent of Total General Revenue
Atlanta	69.5%	48.1%
Savannah	68.6	58.6
Augusta	72.0	47.0
Columbus	55.5	30.1*
Macon	58.0	24.3*
Albany	56.5	40.5
Athens	47.8	36.1
LaGrange	74.3	33.1*
Rome	71.4	63.8
Average	63.7%	42.4%

*Columbus, Macon, and LaGrange include city general hospital charges as a part of current charges, thus accounting in part for the lower property tax percentages of total general revenue.

Legal and Practical Limitations on the Property Tax

Rate Limitations

Several of the states limit the power of local governments in establishing tax rates on property and the level at which the property is assessed. Rate requirements and limitations are varied. Cities in Georgia, by general legislative enactment, are limited to a property tax rate not to exceed one half of of one per cent ($5 per thousand of assessed valuation).[11]

Exceptions can be and have been made by passage of local legislation, and those numerous exceptions, together with the limitation of application to "ordinary current expenses," have rendered the limitations almost meaningless. By way of contrast, cities in West Virginia have been limited drastically by a

4. Citizens Research Council of Michigan, "Tax Rates of United States Cities," **National Municipal Review, January 1955.**

5. **Compendium of City Government Finances in 1955,** Bureau of the Census, United States Department of Commerce, 1956, p.2. Balancing the decline in property tax percentages, current charges and miscellaneous revenue increased from 7.0 per cent and 5.8 per cent to 9.4 per cent and 6.0 per cent respectively.

6. Newcomer, **loc.cit.**

7. What has happened to the property tax in the municipal and other local governments in Florida is an example of the paradoxical role that the ad valorem is playing. Local property taxes increased from $50,000,000 in 1942 to $117,000,000 in 1950 and to $182,000,000 in 1955. At the same time the more recent amounts represent a decreasing share of local revenue: 51 per cent in 1942 compared with 42 per cent in 1955. Of the 296 Florida cities reporting in a survey conducted by the Florida Citizens Tax Council, 50 reported no property tax at all. All of these 50 cities had populations below 10,000 and most of them were below 1,000. But, of the 46 cities reporting more than 50 per cent of their revenue from the property tax, all except three were under 10,000 population. See Kirkpatrick Wyke, **Financing State and Local Governments in Florida,** Florida Citizens Tax Council, Tallahassee, Florida, 1957, p.80.

8. David T. Rowlands, **The Property Tax in Atlanta and Other Large Cities,** City of Atlanta, 1957, p.48.

9. **Compendium of City Government Finances, op.cit.,** p.13. (1950 population figures are used here.)

10. See Alfred G. Buehler, **Financing Public Services and Improvements in Atlanta,** City of Atlanta, March 1957, p.68.

11. **Georgia Code Annotated,** Sec. 92-4101.

low maximum rate established by an amendment to the Constitution.[12] The state of Kentucky specifies the rates and the classes of property to be taxed by local governments. With maximum rates established by the Constitution, statutes permit the larger cities to levy the highest rates.[13] School district rates also are limited by statute, and so are rates on tangible personal property. In 1947 the state of Pennsylvania, following its gift of tax power to local governments, removed all limitations on municipalities to tax at rates desired by the city. In subsequent acts, however, limitations were imposed in different ways, rate limitations among them.[14] In North Carolina the municipalities are limited to a maximum of $1.50 per $100 assessed valuation.[15]

Arguments for and Against Rate Limitations

Whether limitations on rates by statute or by the Constitution should be imposed is a matter of debate. The argument against such limitations is impressive. Real limitations should be based upon how the constituents feel and how great their resources are. With the establishment of arbitrary rate limitations the tax assessor assumes the role of legislator rather than that of an administrator. His control over the only variable gives him the power to determine the amount of money to be spent. In situations in which a rate limit is low, the jurisdiction may be forced into borrowing, resulting in an addition to total expenses.

Those who are in favor of limitations on property tax rates can marshal several points of importance. Rate limitations have been imposed in large part due to the growing number of tax exemptions, with an increasing burden being placed on an ever-narrowing base. With the successful enactments of property tax limitations, which virtually limited the tax to real estate in the '30's, the states were forced to limit property tax rates and turn to other sources of revenue. These limitations have also fostered re-evaluations of our governments and systems. Both the adherents of the pro and of the con agree that if rate limitations are used they should not be a part of the constitution, but should be only statutory; they should be tied to the economic cycle; and their limits should be exceeded only by a vote of the constituents.[16] It appears that much depends upon proper administration of the tax.

Whatever its impact on rate limitations, the exemptions from the application of the property tax play a significant role in the impact of the tax on the taxpayers and affect the general adequacy of the levies of the most important local tax. Any narrowing of the base usually either results in a greater burden on that part remaining or requires the use of another tax. Exemptions are numerous and varied. Property of governments, of eleemosynary, nonprofit institutions such as schools, churches, and certain organizations are not included in the property digest. Insofar as the base of the tax is concerned, in cities in which government buildings and other buildings not taxed form an important part of the property located in the city, the property holders whose real estate is taxed usually bear the added burden. Several states or local governments have exempted new industries entering the state from a share or all of the tax on property over a period of time.

Lack of Equitable Assessment

A practical limitation on the effectiveness of the property tax has been the lack of equitable assessment. Inequities have been commonplace in the form of fractional assessments, unequal assessments, and in the general administration of the tax. One of the qualifications upon effectiveness of the tax—fractional assessment—is not inequitable per se. It does not matter if property in a city is taxed at only a fraction of real value if all property in the city is assessed at the same ratio. However, unequal assessment is accepted to be unfair, and underassessment is transposed into the inequitable unequal assessment in a situation involving different communities with varying levels of assessment. Thus inequities occur, for example, when state aid is distributed, as it often is, through formulas based on need indicated by the assessed value of property. Since rural property generally is assessed at lower ratios than urban property, municipalities and their taxpayers are placed at a disadvantage.[17]

Inequitable assessment within the community itself has been the result of a lack of trained tax administrators, inertia of the assessors and the public, and politics. While none of the inequities is inherent, the discriminations have operated to blacken the eye of the property tax for many years and has prompted one student of the tax to exclaim, "Never has so much money been raised from so many people so inequitably as in the current administration of the local tax on real estate."[18]

Homestead Exemptions

One of the most important restrictions of the tax base is the homestead exemption. At the present time thirty-one states have enacted constitutional or statutory provisions exempting home owners or veterans or handicapped persons, principally the first, from the full application of the property tax. Exemptions range from a few hundred dollars to

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12. **Tax Facts in West Virginia**, The Governor's Commission on State and Local Finance, 1954, p.9.
13. **Preliminary Draft — The Property Tax**. Legislative Research Commission, Commonwealth of Kentucky, Frankfort, 1956, p.VI.
14. **Local Taxes Levied Under Act 481 in 1955**, State of Pennsylvania, 1956. In the 1947 "Tax Anything Law" the Pennsylvania legislature gave the municipalities the power to tax anything not taxed by the state.
15. John A. McMahon, **Sources of Municipal Government**, Institute of Government, University of North Carolina, 1953, p.10.
16. See two papers published in the 1955 **Proceedings of the Forty-Eighth Annual Conference on Taxation**, National Tax Association, Sacramento, California, 1956: Samuel B. Stewart, "The Case for Property Tax Limitations," pp. 286-303, and Paul E. Malone, "The Case Against Property Tax Limitations," pp. 279-286.
17. See the author's article on "State-Local Fiscal Relationships," **The Atlanta Economic Review**, December 1956.
18. John Sly, **A Century of Inequities**, as quoted by Roger A. Freeman in "What Ails Property Tax," **National Municipal Review**, November 1955.

$5,000 in Florida and Mississippi for all home owners. Higher exemptions, but a more narrow base, exist in other states such as Oregon, where there is a $7,500 exemption for certain war veterans, and in North Dakota, where widows are privileged with a $10,000 exemption on fixtures, buildings, and improvements.[19] Tennessee exempts the disabled veterans' home up to $10,000. Almost all, if not all, amounts are on assessed value, not actual value. Since assessment levels are generally so low, the effect of these exemptions is to eliminate many from the payment of property taxes.

In Georgia the homestead or residence actually occupied by the owner is favored by a provision in the State Constitution establishing an exemption range of $1,250 to $2,000. With the maximum amount in effect, many owners of small homes pay little if any property taxes. Using 25 per cent as the average ratio between assessed value and real market value, all property owners residing in homes up to $8,000 real value would pay no real estate taxes for general purposes.

Nature of the Tax: Effects of Homestead Exemptions

Progressiveness

Is the property tax progressive?[20] Is it sufficiently elastic or flexible to meet the demands of a changing economy and the needs of a fluctuating situation? On the basis of the effect of the homestead exemption alone, it is claimed by some students of the tax that it is progressive. Professors Buehler and Rowlands support this claim in their study of the City of Atlanta fiscal situation. In 1956 the homestead exemption formed 23.78 per cent (exclusive of the public utility levy) of the total city digest in the city portions of Fulton County and 20.41 per cent for the city as a whole. The size and importance of the exemption is reflected in the effect of the exemption as the size of the property increases. Table 2 shows the ratios of real tax rates to statutory rates for homestead properties in Atlanta for 1956.[21]

Table 2

RATIO OF REAL TAX RATES TO STATUTORY RATES—HOMESTEAD PROPERTIES, ATLANTA, 1956

Size of Assessed Valuation	City Ratios
$2,000	43.1%
3,000	62.0
4,000	71.6
5,000	77.3
8,000	85.8
10,000	88.6
20,000	94.3
40,000	97.1

(The homestead exemption does not apply to property taxes to support school funds and debt service as will be discussed subsequently.) Thus in properties with a $2,000 exemption, the real rate for city purposes is approximately 43 per cent of the millage rate applicable to nonexempt properties. Contrast that percentage of application to the real tax rate on $40,000 properties — 97.1 per cent of amount levied if no tax exemption had applied.[22]

There are other students of tax effects who probably would dispute any general statement that the property tax, with the application of homestead exemption, is progressive. A University of Michigan study shows that in relation to total income the property tax is regressive in nature. The property tax levied in Michigan is distinctively "regressive" at the bottom of the scale and continues to be regressed to a degree throughout the income scale. The part of the tax falling on owner-occupied residences is somewhat regressive throughout, reflecting the declining relative importance of housing expenditures as income increases.[23] Also regressive, according to the results of the study, is the tax on personal property, particularly in the lower levels of income. As an exception, the tax on intangibles becomes progressive at a certain level ($4,000) and is highly progressive at the upper end of the income scale.[24]

In practice, the effect of homestead exemptions can be lessened by action of the municipal government, even though the amount of the exemption remains the same. The City of Atlanta is now in the process of placing the burden of the property tax more evenly upon all by placing greater emphasis upon property not subject to the exemption. This year the city is placing a larger portion of the total tax rate on a gross digest basis while, at the same time, reducing the general rate. The explanation is that the tax exemption of $2,000 applies to taxes levied to supply the general fund of the city but does not apply to the school fund and the debt service.[25] Another step in the lessening of the effect of homestead exemptions has been recent action to emphasize school taxes and debt servicing where the exemption does not apply. In 1957 the City of Atlanta discontinued the practice of turning over 30 per cent of its general fund revenues to the Board of Education. As a result, the Board, which has the

19. See **Homestead Exemption Statutes for Taxation Purposes.** General Assembly of State of Missouri, Committee on Legislative Research, 1956.

20. A progressive tax is a tax, the rate of which increases as the base increases.

21. Rowlands, **op.cit.**, p.51

22. Keep in mind that property assessed at $40,000 in Atlanta actually would be worth around $125,000. The ratio of assessed value to real value in Atlanta is 31.9 per cent, according to Professor Buehler.

23. The findings of the University of Michigan study are not consistent with those evidenced in a study of the Atlanta area, in which it was noted that ". . . as family income rises, the amount spent for housing rises even faster." See John E. Lewis, Jr., "Housing Values and Income," **The Atlanta Economic Review,** September 1956, p.1.

24. See R. A. Musgrove, J. J. Carroll, L. D. Cook and L. Farne, "Distribution of the Tax Payments By Income Groups: A Case Study for 1948," **National Tax Journal,** March, 1951. (An interesting feature of this study is the conclusion that the percentage of income paid in the form of taxes (all types) varied relatively little up the income scale: 28.08 per cent for the $0-$1,000 group to 36.35 per cent for the group with annual income over $7,500.)

25. Outside of Atlanta in Fulton and DeKalb Counties the homestead exemption does not apply to taxes for general school funds but does apply to taxes levied for school bond purposes and for other debt services. In Decatur the exemption applies only to taxes for serving the county debt.

power to levy taxes, now must increase its own levies to take care of the loss, while the City can reduce its general rates. The rates now are greater on the portion of property where no exemption applies and less on the portion where the exemption does apply. In short, the state exempts; the city counteracts.

Another method a city (or any local government) can use to reduce the impact of the homestead exemption is to increase the assessment ratio further toward the level of real value. Such action expands the base of the tax, making the rates applicable to a number of property owners who otherwise would pay little or no property taxes. DeKalb County recently has seen the effects of such an action when the assessment level was raised from 16 per cent to 50 per cent of market value. Whatever the merits or demerits of the factor of progressiveness in the tax, DeKalb County is considerably more able to meet the expanding needs of a growing community.

Elasticity

Is the property tax elastic? Should it be? In practice, the flexibility of the tax has varied. During the last two decades the ad valorem has lacked flexibility. Prior to the depression, however, it was demonstrated that elasticity was a possibility—assessments remained relatively stable, but rates were altered annually as a matter of course. It was not until the rates were increased excessively that elasticity disappeared. Today, since the property tax is relatively less of a burden in the cities, flexibility again is a possibility. Once again it is economically and politically feasible to increase as well as to decrease the rates and base of the tax.

None of the factors which together result in rigidity of the property tax is inherent. Drastic limitations applying to rates and assessments in many states can be removed. The lag of true and fair value standard behind rising levels of cost and prices for real property can be shortened. The administrative inertia of some of the assessors can be eliminated. All of these limitations are procedural or administrative and can be remedied by proper legislative and adminstrative action. The voters and legislative bodies can act to remove the limits of the tax. Assessment levels can be raised and maintained at real market value. Assessors can be hired and trained to assess at adequate standards.[26]

As to whether the tax should be elastic, the answer is "yes, but not extremely so." Flexibility is desirable because of changing needs and circumstances. A tax which places the same monetary burden upon the taxpayer regardless of the economic conditions is undesirable. But flexibility is not the only important criterion of a tax. In fact, the presence of a degree of the opposite characteristic is necessary. Local governments, having no control over the source of money and with few if any powers of manipulating the economy, need a tax which will assure them of a certain level of revenue during "bad" as well as "good" years. City revenue tends to decline during a depression, but municipal needs, because of the function of relief, may actually increase.[27]

Property Tax in the Over-All Picture

Can the property tax be examined alone, completely isolated from other taxes which also are imposed upon the property holder? The ad valorem is only one among many taxes when all levels of government are considered. Even though the tax on property looms large on the local scene, its importance as a part of the total taxes paid by the individual to all levels of government has been of lesser significance, amounting in 1953 to only 10 per cent of total taxes. Although the property tax today may be increasing in relative importance again, the point is this: one tax cannot be studied alone, separate from all others which have impact upon the individual. In that light, the over-all total tax picture is the important consideration. Alone, the tax on property may be considered too inflexible, but as a part of the general taxes by all branches of government, including a flexible tax such as the income tax as the dominant levy, the degree of stability found in the tax may not be undesirable. Certainly this may be true when the tax is assessed and administered properly and with care.

Conclusions

The question as to the adequacy of the property tax as the sole important source of tax revenue for cities is one that cannot be answered simply. There are certain points to consider that may lead one to a conclusion that the tax is inadequate as the sole important source of municipal revenue. However, if levied and administered in the best possible way the tax could well remain as the bulwark of city revenue. It is an accepted, a traditional source of local revenue. It is dependable and stable, bringing in revenue consistently. The tax *can* be administered logically and systematically in a non-discriminatory manner. In practice, however, as is so well known, the tax on property generally has been administered in an inadequate and often unfair manner.

The future of this source of revenue depends upon changes in the law and upon proper administration, as well as on the extent of the need for increased revenue for municipal governments in the future. Improve the tax, remove objectionable exemptions, and with reasonable administrative procedures the tax on property will continue as an important source of local revenue. Otherwise it appears but a matter of time until other tax sources supersede the traditional role of the tax on property as the chief source of municipal revenue.

[End]

26. This point is developed in James K. Hale, "Sales-Assessment Ratio Survey in Washington," **National Tax Journal**, June 1956.

27. See Melvin and Anne White, "Impact of Economic Fluctuations on Municipal Finance," **National Tax Journal**, March 1954.

THE CURRENT RECESSION AND STABILIZATION TECHNIQUES

(Continued from page 9)

more on defense, and it is likely that it will authorize expenditures even beyond what the President has requested. And then there is the expansionary effect of additional spending for economic aid to other nations and to combat the economic offensive that Russia is waging.

2. Making for long-term expansion is the large base that still exists for further monetary expansion. Commercial banks still hold about $57 billion of U. S. Government securities. These holdings potentially can support a long expansion of three or four tims this amount. Indeed, the overriding monetary problem ever since World War II has been that of preventing too rapid expansion of bank lending activities. The banking structure is no weak infant; it is more of a lusty giant and must operate under restraints to keep it from creating more credit than can safely be absorbed in expanded output.

3. There is a strong inflationary bias at work. As a people, we want more schools, more highways, more armament, more homes, more of everything than we have money to pay for. We are inclined to be impatient with anyone who cautions us to be careful about going into debt. We have become indifferent to trying to keep a workable balance between spending and saving. We are eager for tax reductions regardless of the effect upon the national budget.

4. There are built-in anti-recession factors. If unemployment rises, so do unemployment compensation benefits. Other social security benefits enable large groups to maintain consumption spending. If Government revenues decline, Government spending will go right on, offsetting a decline in business and consumer spending. There are ceilings on hours and floors under wages. There are also price supports under a large part of agricultural produce. Everywhere possible, safeguards have been placed against deflation. Aside from responsibilities given to the Federal Reserve System in the matter, defenses against inflation have pretty well been ignored.

In the long run, therefore, there is much justification for believing that the overriding problem is that of restraining undesirable inflation. Current weaknesses that have appeared here and there in the economy suggest that they will be temporary in character. They represent a situation that does not call for crash programs in public spending and a substantial reduction of tax levies. If the American public cannot take such mild adjustments as are now in process without becoming panicky and demanding an all-out assault on deflation, then there is real chance that a renewal of inflation excesses will not long be deferred. L.B.R.

CONSUMER CONFIDENCE

(Continued from page 11)

the rest of the nation, scoring higher in their attitudes toward their own financial condition and in their outlook for the future.

At some time during 1957, however, attitudes changed, and while the change also appeared in the data gathered recently on the national level by the University of Michigan for the Federal Reserve Board, it had already appeared several months earlier in the Atlanta Survey of Consumer Attitudes and Purchase Plans. That by October 1957 a significant drop in the level of confidence had occurred in the mind of the average Atlantan is demonstrated by a comparison of his responses then with those obtained in October 1956 and with those obtained on the national level during the first quarter of 1957. During the first quarter of 1957 data collected on a national level indicated high consumer confidence equal to the level of a year earlier. The Atlanta Survey, nine or ten months later, completely reversed the picture of confidence given by the national survey, substituting a picture of greater pessimism regarding both financial conditions and future prospect for income. In appraisal of his own financial condition, the reversal was very sharply downward.

High Living Cost Cited

Respondents in the Atlanta survey were asked to give reasons for evaluating their financial condition as they had, and *the "high cost of living" was listed more often than any other as the reason for the family's financial condition being worse or the same as last year.* This fact seems rather illogical in view of the fact that while consumer prices, as measured at the national level by the Consumer Price Index, rose 2.6 per cent from December 1956 to October 1957, personal income rose 3.7 per cent during the period, thus leaving the average cousumer somewhat better off in October than in the preceding December. Over the entire period, however, *much publicity had been given every rise, no matter how small, in the Consumer Price Index, thus apparently convincing the undiscerning consumer that high prices were rapidly eating away his income, while such, in fact, was not the case.*

Buying Plans Decline Along with Confidence

The Atlanta consumer was consistent with this theory of his declining confidence when he answered questions regarding his plans to purchase new cars or homes. Against 12.6 per cent in the 1956 survey who answered they might or would buy a new car, only 7.7 per cent indicated they would in the 1957 survey. The same trend was true of home buying plans. The ratio dropped from 13.4 per cent indicating definite plans to buy in 1956 to 8.7 per cent in 1957.

—William H. Wells, Editor

The Southeastern Corner

by

Warren A. Walker*

ATOMIC ENERGY IN THE SOUTHEAST: ATOMS AND AGRICULTURE

There is probably not a literate person in the world who has not heard of Oak Ridge, Tennessee. He may not know exactly where it is or what its precise function is, but he will know that it has been identified with the atomic energy program of the United States almost from the beginning.

Unfortunately, such identification will almost always be associated with the development of the atomic bombs used in the closing days of World War II, and only rarely with the useful, peaceful contributions made since the war.

When the writer visited Oak Ridge some two years ago, he asked what use was being made of the original sub-critical atomic pile and related equipment that were used during the war. The answer was that they are now used for the production of radioisotopes which have found applications in industry, medicine, and agriculture.

In this month's article we shall largely confine our considerations to the impact of radioisotopes on agriculture in general and the agriculture of the southeastern United States in particular.

The first thing that atomic research can contribute—and to a degree already has contributed—to agriculture is a better understanding of the basic science of botany. Botany may well be regarded as one of the basic sciences because it covers a whole kingdom of living things—plant life.

For the individual farmer this new knowledge will eventually mean crops having greater resistance to plant diseases and insect infestation. New mutational types of plants having greater nutritional value, and with some possibility of growth regulators so as to adjust to abnormal climatic conditions, are now a reality.

On the other side of the coin there are many of the basic economic problems of agriculture that atomic research will not cure. In fact, there is a strong likelihood that some problems may be greatly aggravated by the application of these new techniques.

Atomic research is not going to provide a cure for the problems of what has sometimes been termed "too perfect competition." In general it appears that the lot of the large farmer will be improved and that of the small farmer will get worse. Of course this has been going on for over fifty years now, so atomic research will not be setting a new trend but merely accelerating an old one. It will not dispose of the enormous surplus of some crops now in warehouses.

Contributions of Atomic Research to Agriculture

As an example of atomic research contributing to the control of plant diseases and insect infestation, as early as 1956 there were extensive reports generally available to those interested in this area of activity. At that time the research required for these reports had already been in progress some ten years.

Uses of Radioisotopes

1. *As Tracers*: One of the most valuable contributions of radioisotopes to agricultural research has been as tracers,[1] whereby the movements of insects may be detected at a distance or the movements of fluids within the plant traced without damage to the plant.

2. *In Pest Control*: In addition, it has been fully demonstrated that some types of insect pests can be completely eliminated by means of radiation. For example, certain types of agricultural products such as grains can be deinfested by means of irradiation. It should be noted at this point that it has been demonstrated that such decontamination is far more simple and much more effective against the larval stages of the insect than against the adult. A much lower degree of irradiation is required under these circumstances.

3. *As an Aid in Disease-Resistance*: Recent work

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1. By "tracers" we mean that a small quantity of some radioisotope is applied or injected into a plant or insect.

in closely controlled radiation has indicated that it is entirely possible to produce plants that have an inherently greater resistance to disease. The greatest progress thus far seems to have been in the type of plant diseases classified as rusts.

4. *In Production of Mutational Varieties*: Research in the field of using radiation to produce mutational types is not as new as many people believe. As early as 1930, or even perhaps a bit earlier, scientists, both in Sweden and America, were experimenting with certain types of cereal plants to produce new varieties. In both instances they had the double objective of producing plants that were both more disease resistant and capable of a greater yield. These early efforts were somewhat hampered by the difficulties of producing radiation of a suitable type. In recent times the availability of relatively low cost radioisotopes has greatly accelerated this work.

Additional work is now being conducted to produce varieties that will provide adequate crop yields under abnormal climatic conditions, such as extreme conditions of dryness or excessively moist soil. Latest reports indicate satisfactory progress in this field of research.

Research is also being conducted in the field of photosynthesis to produce varieties of plants adjustable to extremes of intense or reduced sunlight. The latest reports available to the writer indicate that progress is being made, but present results are not to be considered as conclusive.

Significance for the Southeast

Fortunately for the southeastern United States, the most recent experiments and the most favorable results have been on crops found largely in this area. Mutational types have been produced in such crops as tobacco, grain sorghums, soybeans, peanuts, and cotton. These new varieties provide greater disease resistance, greater productivity, easier processing and harvesting—or in some instances, all three.

Effect of Atomic Research on Farm Surpluses

The use of atomic radiation in agriculture, though it may solve many of the problems long harassing the farmer, will tend to intensify at least one of the problems—that of farm surpluses. Indeed, if very positive steps are not taken it may generate new surpluses in two different ways:

(1) The first way in which new surpluses will be produced is from the fact that the land that remains in production will be more productive, both because many of the new varieties are more productive than the older types, and also because there is less likelihood of crop failure. This is true because of the greater resistance to disease and insect infestation and resistance to abnormal climatic changes.

(2) The other way that an additional surplus may be produced arises from the fact that ordinarily a surplus of many farm commodities will gradually disappear through natural deterioration. The new uses of radiation to kill off larval population and the fact that much the same process can be used to kill off microorganisms that produce spoilage will, if used, tend to retard this natural deterioration.

Since there is some reason to believe that the consumer bears added costs arising from overproduction, he may not be benefited appreciably by technical advances in atomic research in agriculture until a better solution is found to the farm surplus problem.

Effect of Atomic Research on the Small Farmer

How will atomic research help the large producer more than the small? This result will be produced in the same way that mechanization and the widespread use of chemical fertilizers helped the large producer. Large capital expenditures presuppose the possession of capital to expand. The large individual producer, or the corporate farm, usually has this capital—the small marginal farmer does not. New varieties of plants almost invariably cost more than older types, and frequently they require special "know-how." The large producer can afford the great cost of the new varieties because his return on capital will be greater. If he does not have the know-how, he can hire someone who does. Here again, on both counts, the advantage has accrued to the large producer, thus posing disturbing implications to southeastern agriculture because the Southeast has relatively more than its share of small marginal farmers.

A return to purely competitive agricultural production might provide an answer to these problems in the long run, but a lot of people would be hurt in the process. There is no simple short-term solution. It should be remembered, however, that atomic research does not produce these problems—it will merely intensify them.

It is not true that there is **no** solution to the problem of agricultural surpluses. One solution is to use these products for purposes other than consumption as food. A number of agricultural products are suitable for conversion to various types of plastics. The only difficulty in the past has been that plants for the production of such plastics involve very large capital expenditures. The chemical companies are reluctant to build such plants unless there are assurances of uniform sources of supply of the raw materials.

Atomic research has to a large degree not only made it possible to standardize the quantity produced in any particular year, but to standardize quality as well.

Industrial Implications

What will be the impact of these new developments on segments of the southeastern economy other than agriculture? As has already been indicated, that portion of agricultural production which is highly capitalized and mechanized will derive the greatest benefit from these new developments. By

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the same token the manufacturers and distributors of farm machinery will benefit also.

Extending this analysis in the other direction, food processors and distributors will benefit in several ways. First of all, a reduction of crop failures will tend to produce uniformity of production and reduce the problems of excess plant capacity in some years. A second benefit is that the new methods of atomic radiation will reduce spoilage, with a consequent reduction in inventory losses. While the equipment of this type of processing may increase total costs, it will almost certainly reduce unit costs.

[End]

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The following research papers are available without charge:

Research Paper Number 2—**An Exploratory Analysis of the Development and Present Status of Voluntary and Cooperative Groups in Food Marketing,** June, 1957, by Dr. David J. Schwartz, Associate Professor of Marketing, Georgia State College of Business Administration.

Research Paper Number 3—**Probing into the Economic Attitudes of College Students,** February, 1958, by Dr. Willys R. Knight, Director of the Bureau of Business and Economic Research, Georgia State College of Business Administration.

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